

HF 3294 (Wolgamott); SF 3314 (Cwodzinski): Teachers Retirement Association (TRA); Lowering the normal retirement age to 64; increasing employee and employer contributions

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Introduction

- Affected Plans:** Teachers Retirement Association (TRA)
Higher Education Individual Retirement Account Plan (IRAP)
- Laws Amended:** Minnesota Statutes, Sections 126C.10, subdivision 37; 354.05, subdivision 38; 354.42, subdivisions 2, 3; 354B.23, subdivision 1; and 356.215, subdivision 11
- Brief Description:** The bill:
- lowers the normal retirement age from 66 to 64 for Tier II teachers;
 - extends the end of the amortization period from 2048 to 2053;
 - pays for the cost of the change in the NRA with a 0.5% increase in the employee contribution rate and a 1% increase in the employer contribution rate; and
 - appropriates money to the school districts to cover the cost of the employer contribution increase.
- Attachment:** [Cost estimate](#) from the Commission Actuary, Mark Schulte, VIA Actuarial Solutions

Background

Under Minnesota Statutes, section 354.05, subdivision 38, defines “normal retirement age” as follows:

- For members who first became a member before July 1, 1989 (Tier I), age 65;
- For members who first became a member after June 30, 1989 (Tier II), the higher of age 65 or “retirement age” as defined in U.S. Code, title 42, section 416(l), but not to exceed age 66.

The reference to federal law is to the definition of “retirement age” for purposes of Social Security benefits. The retirement age is 66 or older for individuals who attain age 62 after December 31, 2004. Generally speaking, for Tier II members, the normal retirement age is 66.

Normal retirement age is the age at which a member will receive a full undiscounted annuity. This means that the benefit calculated for the member using the plan’s benefit formula is the benefit amount the member will receive if the member begins distribution of the retirement annuity at normal retirement age. If the member retires before normal retirement age and begins distribution of the retirement annuity, the benefit as calculated using the benefit formula will be reduced for early commencement.

Other benefits that depend on normal retirement age:

- Beginning at normal retirement age, a member’s pension will not be offset by earnings if the member resumes teaching after commencing distribution of the retirement annuity.
- If a member is receiving a disability benefit, the disability benefit ends when the member reaches normal retirement age (or, if later, five years after commencement of the disability benefit). This may convert a tax-free disability benefit to a taxable retirement annuity.
- A member is entitled to a “proportionate annuity” upon reaching normal retirement age. A proportionate annuity is defined at Section 356.32 as an annuity calculated using the benefit formula and considering the member as vested even if the member has fewer than the required number of years for vesting (3 years for TRA).

Section- by- Section Summary

Section 1 amends Section 126C.10, subdivision 37 (“pension adjustment revenue”) by increasing the pension adjustment revenue by 1%, from the 1.25% in current law to 2.25%, for fiscal year 2024 and later. The pension adjustment revenue is paid to school districts and is based on salaries paid to district employees who are members of the teacher plans.

Section 2 amends Section 354.05, subdivision 38 (“normal retirement age”) by striking the reference to the higher of age 65 and the Social Security retirement age, not to exceed 66, and replacing it with age 64. This change only applies to Tier II teachers, that is, teachers who first become a member after June 30, 1989.

Section 3 amends Section 354.42, subdivision 2 (“employee contribution”) by increasing the employee contribution rate that will take effect on July 1, 2023, from 7.75% to 8.25% for coordinated members and from 11.25% to 11.75% for basic members. Basic members do not receive Social Security benefits on their TRA-covered service. This increase applies to both Tier I and Tier II members.

Section 4 amends Section 354.42, subdivision 3 (employer contribution) by increasing the employer contribution rate that will take effect on July 1, 2023, from 8.75% to 9.75% for coordinated members and from 12.75% to 13.75% for basic members.

Section 5 amends a section in Chapter 354B, which governs the higher education individual retirement account plan (IRAP) for employees of the Minnesota State Colleges and Universities. Section 354B.23, subdivision 1 (“member contribution rate”), is amended to increase the current member contribution rate that will take effect on July 1, 2023, from 7.75% to 8.25% to match the increased employee contribution rate in Section 3.

Section 6 amends Section 356.215, subdivision 11 (“amortization contributions”), to extend the “established date for full funding” for TRA from 2048 to 2053. All the other public pension plans continue to have a full funding end date of 2048.

Section 7 is a session law that provides an appropriation to the Department of Education for general education aid for fiscal years 2024 and 2025. The dollar amounts are blank.